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C O N F I D E N T I A L SECTION 01 OF 02 KINSHASA 002100

SIPDIS

SENSITIVE

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TAGS: [EFIN](#) [ECON](#) [EINV](#) [PREL](#) [CG](#)

SUBJECT: MINISTER OF BUDGET ON BUDGET AND EXPENDITURE

REFORMS

REF: A. KINSHASA 478

[B](#). KINSHASA 1866

[1](#)1. (C) Summary: Minister of Budget Francois Muamba stressed GDRC compliance with the IMF program and progress on government reforms during a recent call with the Ambassador. Muamba emphasized the good faith of the GDRC to comply with IMF parameters in spite of some minor slippage. Budgeting for elections, pro-poor programs, and military integration are all being considered by the GDRC. Though increased internal revenue may help pay for a small portion of these programs, significant financing gaps will still exist in the 2005 budget, and external budget support will be needed. Improvements of internal expenditure controls are proceeding slowly due to technical difficulties. Advances in transparency and self-sufficiency will take time, but the GDRC appears to be cognizant of the challenges it faces and is working on remedies. End summary.

IMPROVED BUDGET PLANNING AND COMPLIANCE WITH THE IMF PROGRAM

[1](#)2. (SBU) Minister of Budget Francois Muamba stressed on November 4 that the GDRC was doing well to stay within the parameters of the IMF program, and that it is working on improving internal expenditure controls. Although there has been some slippage due to exchange rate changes and to a lack of spending discipline, the GDRC is on track to have its 2005 budget prepared on time and within IMF parameters. Of key importance will be funding for social programs and reduction of internal debt.

[1](#)3. (C) Muamba also made clear that some funding for military integration and elections will be included in the 2005 budget. In particular, he noted that USD 75 million is being considered for military and police integration. He pointed out that in spite of increased internal revenue, a substantial financial gap remains that can only be covered by external assistance, .

BALANCING INCREASING INTERNAL FINANCES AND TAX REFORM

[1](#)4. (C) Muamba told the Ambassador there has been a 32 percent increase in government revenue from 2003 to 2004, and the GDRC and IMF expect a similar increase in 2005. The GDRC acknowledges, however, that it would need to significantly increase government revenues to be self-sustainable.

[1](#)5. (C) Stressing the importance of private sector investment, the Ambassador said that some formal sector businesses have complained about numerous fees and taxes that apparently are being arbitrarily imposed. In order to promote economic development, he added, there must be a clear and open dialogue between the GDRC and the private business community. Muamba stated that such problems are being discussed at the level of the Economic and Financial Commission (EcoFin) and will result in a new and consolidated tax structure, detailing which taxes and fees are required. A decentralization law is also planned to give greater local taxation authority to the provinces. Muamba did not give any indication of when these reforms may occur.

INCREASING PRO-POOR SPENDING

[1](#)6. (C) The Minister assured the Ambassador the GDRC will increase pro-poor spending in its 2005 budget. Although he stated that pro-poor spending is at the heart of budget planning, Muamba outlined three factors that inhibit pro-poor spending:

--Pro-poor spending is underreported due to technical difficulties in the current disbursement system and electronic accounting program used by the Ministry of Finance.

--Public tenders are required for most pro-poor programs per World Bank regulations, and it has taken some time to familiarize government ministries and agencies with such procedures.

--Congolese enterprises are not equipped to submit bids in open tenders due to a lack of capital. Though many could tender competitive bids, they would require partial advance

payments to begin work on a project.

LOW PUBLIC SALARIES POORLY DISTRIBUTED

17. (C) The Ambassador noted that payment of public sector salaries is crucial to the budget process and to the Transition in general. For example, when soldiers are not paid, they become a security problem which could put elections at risk. Muamba replied that soldiers are paid regularly, however, they are poorly paid. The Ministry of Finance delivers monthly sacks of cash to distribution points throughout the country, but Muamba acknowledged that funds sometimes disappear en route. The Ministry of Budget is trying to end the use of sacks of cash and move to an electronic transfer system to reduce the number of people through whose hands cash passes.

PROMOTING FOREIGN INVESTMENT

18. (SBU) The Ambassador returned to the importance foreign investment must play in future growth of the DRC economy. The Ambassador cited the DRC's near last placement on the World Bank's business start-up index. While the USG realizes that resolving many of the bureaucratic hurdles is an ongoing process and takes time, necessary changes need to be made more quickly to expand the formal economy. The Ambassador suggested that the successful completion of an agreement with Phelps-Dodge (currently negotiating with the GDRC to form a joint-venture with Gecamines for a copper and cobalt mine in Katanga province, per reftels) would send a strong positive signal to international investors.

NO BUDGETARY SUPPORT BUT TRY FOR HIPC FULFILLMENT

19. (C) Muamba twice requested bilateral budgetary support during the course of the meeting. The Ambassador answered that the USG's substantial bilateral assistance program does not provide direct budgetary support. He noted, however, that the U.S. Administration is committed to working with Congress to obtain funding for HIPC debt relief as soon as possible in accordance with HIPC terms. This would serve to alleviate some significant budgetary obligations for the GDRC.

COMMENT

10. (C) Comment: Muamba demonstrated that the GDRC acknowledges the significant challenges it faces to improve government operations and promote economic growth. These challenges will take time to resolve, and international pressure and support are key to continued progress. U.S. fulfillment of its HIPC obligations to the DRC would help support ongoing reform efforts, while the GDRC is simultaneously staying within IMF program parameters and continuing to service its bilateral debt. End comment.
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